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TARIFF REVISION AND THE NATION'S NECESSITIES.

BY THOMAS H. CARTER, UNITED STATES SENATOR FROM MONTANA.

THE country has commanded a revision of the tariff after nearly twelve years' experience under the existing law. That command presents to Congress a very perplexing problem, which will be more difficult in the absence of a common understanding of the many important factors to be considered in its solution. The partisan contentions and dogmatic assertions peculiar to a political campaign do not tend to induce the calm and calculating frame of mind essential to close analysis, but rather the opposite.

The air is still surcharged with the echoes of such passion-breeding phrases as "robber tariff," "overgrown infant industries," "tariff-bred trusts," "license to steal," "free trade and hard times," "tariff-tinkering," "soup-house tariff," and so on to the end of the list of picturesque expressions so well known to campaign orators and writers.

Ninety-two Senators and three hundred and ninety-one Members of the House of Representatives come direct from the arena of political controversy to organize a Congress which must revise the tariff on a sound basis, with due regard to the business of the country and the necessities of the Government. Responsibility will very soon bring sobriety of thought to the Senators and Representatives, and particularly those of the majority party, for that party cannot evade full accountability to the people for what may be done or left undone in framing a tariff bill. On the other hand, the public at large, not being charged with any direct obligation to take definite action, can scarcely be expected to emerge from the campaign atmosphere well qualified to scrutinize impartially and determine judicially a proper adjustment of the complex relations of one schedule to another, and of both to the revenue required to carry on the Government.

These relations Congress is not at liberty to disregard; and, as the public, inspired by both sentiment and interest, will by petition, protest and criticism exert a potent influence on the law-making body at every stage of the proceeding, it is of the very gravest importance that some common understanding should be reached early in the Session as to certain controlling facts which all must recognize.

It is currently understood that "Tariff Revision" and "Tariff Reduction" are to be regarded as synonymous terms in arriving at a just interpretation of the meaning of the last election.

Market prices are high, measured in dollars without reference to the purchasing power of wages, and the increased cost of living is, in consequence, the subject of almost universal complaint. If wages and incomes can be maintained on the present level, and the cost of living be reduced to a considerable degree, a most satisfactory solution will have been reached; but, unhappily, there are many obstacles in the way. All elements of our economic structure are so interlaced that an artificially maintained high-level of wages, with a low-level of prices for the necessities of life, cannot long continue. But, while recognizing, as we all do, the desirability of reducing living expenses, we must take into account the fact that Congress cannot exercise unrestrained discretion in reducing tariff duties. The best that can be done, under existing conditions, is to readjust and extend duties so as to correct injustice and inequalities, and increase the aggregate amount of revenue to be derived from customs.

It must be borne in mind that the administration of the Federal Government involves a stupendous business operation conducted on a cash basis, credit being resorted to only in rare instances. The large proportions of the operation render adherence to strict business principles more necessary than in smaller affairs, for a slight deviation from the true line in national legislation may bring disaster to millions of unsuspecting people, whose occupations and fortunes may be seriously affected by the impairment of that confidence in the conduct of the Federal Government which seems to be a necessary inspiration to business enterprise.

In no way can the revenue conditions confronting the new Congress be more clearly set forth than by presenting the estimates of receipts and expenditures furnished by the Secretary of the Treasury for the next fiscal year. These estimates are as follows:

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It is estimated that, upon the basis of existing laws, the revenues of the Government for the fiscal year 1910 will be:

From customs.....	\$290,000,000.00
From internal revenue.....	250,000,000.00
From miscellaneous sources.....	62,000,000.00
From postal revenues.....	223,340,712.00

Total estimated revenues.....\$825,340,712.00

The estimates of appropriations required for the fiscal year 1910, as submitted by the Executive Department and offices, are:

Legislative establishment.....\$7,316,190.75

Executive establishment:

Executive proper.....	\$415,510.00
State Department.....	288,700.00
Treasury Department.....	11,447,836.00
War Department.....	2,207,068.00
Navy Department.....	836,940.00
Interior Department.....	5,232,655.00
Post-Office Department.....	1,711,040.00
Department of Agriculture.....	14,610,626.00
Department of Commerce and Labor...	1,555,300.00
Department of Justice.....	500,680.00

38,806,355.00

Judicial establishment.....

972,160.00

Foreign intercourse.....

3,880,194.72

Military establishment.....

104,844,635.88

Naval establishment.....

121,847,472.47

Indian affairs.....

11,451,576.05

Pensions.....

161,018,000.00

Public Works:

Legislative.....	7,000.00
Treasury Department.....	10,000,000.00
War Department.....	112,274,455.83
Navy Department.....	12,545,975.52
Department of the Interior.....	1,452,000.00
Department of Commerce and Labor...	405,000.00
Department of Justice.....	470,500.00

137,154,931.35

Miscellaneous:

Legislative.....	5,854,987.20
Treasury Department.....	24,302,971.07
War Department.....	6,957,390.48
Interior Department.....	5,479,920.00
Department of Justice.....	7,804,180.00
Department of Commerce and Labor...	10,445,545.00
District of Columbia.....	16,176,355.52

77,021,349.27

Postal service.....

233,978,560.00

Permanent annual appropriations:

Interest on the public debt.....	22,500,000.00
Refunding, customs, internal revenue, etc.	15,203,500.00
Collecting revenue from customs.....	5,500,000.00
Miscellaneous, exclusive of sinking-fund and national-bank redemption fund...	26,892,582.52

70,096,082.52

Total estimated appropriations.....\$968,387,508.01

Thus it appears that the total estimates of appropriations submitted by the several Executive Departments exceed the estimated revenues of the Government for the fiscal year 1910 by \$143,046,-796.01.

It will be observed that the postal revenues are estimated as approaching within ten millions of the postal expenditures; whereas it is more than probable that the difference between receipts and expenditures in that and other Departments will be such that the total revenues of the Government, estimated on the basis of existing law, will fall at least \$160,000,000 below the appropriations for 1910. This prospect is made still more serious by the assured fact that the revenue for the current fiscal year will be at least \$120,000,000 less than the necessary expenditures. Thus it is apparent that the deficiencies for this year and next will inevitably wipe out the surplus in the Treasury, and besides create a deficit to be made good by increasing taxes or by the sale of bonds.

To those who suggest a reduction of expenses, as a means of avoiding either of the alternatives referred to, must be assigned the duty of showing where the reductions can be made without injury to the public service or refusal to meet the insistent demands of the people for public improvements and the safeguarding of the nation's interests.

This apparently simple task will be found more troublesome than it seems. Demands on the Treasury have increased at the rate of about ten per cent. per annum for many years past, and this rate of increase is likely to grow greater rather than less in the immediate future if the call is met for larger appropriations for the improvement of harbors and waterways and for the extension of Government activities in numerous other expensive directions. Taking into account only such outlay as adherence to the present scope of Congressional appropriations involves, in what Department or Departments can we so curtail expenses as to avoid bond issues or additional taxation?

If all appropriations for the Congress, the Courts and our foreign intercourse should be omitted, the whole saving thereby made would be only approximately \$12,000,000 or about one and one-quarter per cent. of all the annual appropriations. The Executive establishment absorbs about \$39,000,000 annually, but the individual who thinks this can be diminished need only serve

a few days in Congress to learn how hard it is to resist the never-ending appeals being made for increase of wages and salaries. Then the normal extension of the service to meet the growing requirements of the country must be considered, so that the Congress that keeps the appropriations for the Executive establishment down to the present figures may well be commended.

No one familiar with conditions or mindful of our relations to the nations of the earth will seriously contemplate impairment of the Army or Navy through failure to maintain both on the present footing at least.

Abandonment of rural free delivery would make up the deficiency in the Postal Service, and bring a profit from it at once, but who would expect the twelve million farmers of the country to submit to a saving of thirty-odd millions annually in that way?

Construction of the Panama Canal, the improvement of rivers and harbors, the reclamation of our arid lands and the prosecution of public works generally might be discontinued in the interest of economy, but the American people would not tolerate such action.

Finally, we come to the item for pensions, amounting to over \$160,000,000 annually, and here we could, but will not, curtail to make up deficiencies.

In the last analysis, it will be found, on the closest possible inspection, that the little saving which can be made here and there, by practising the strictest kind of economy, will be more than offset by unavoidable additions incident to the normal expansion of the operations of the Government.

If this conclusion is accepted, and I think it will be, our revenue laws must be so amended as to produce sufficient additional income to pay current expenses out of current receipts, if we are henceforth to conduct the Government business on a cash basis.

The Constitution vests in Congress power "to lay and collect Taxes, Duties, Imports and Excises," subject to certain well-known limitations; and, in pursuance of a policy established under the first administration of Washington and adhered to ever since, Congress, in the exercise of this power, has always provided and will in the immediate future provide for the needs of the Treasury, chiefly by tariff duties on importations from foreign countries and by the Internal Revenue collections.

Income from these two sources is supplemented by the earnings of the Postal Service and by miscellaneous receipts, the latter being comparatively limited, fluctuating and unreliable. While many interesting and plausible arguments have been presented in favor of substituting for the ancient system a tax on incomes or a direct tax on land and personal property, as a means of raising national revenue, it would be but a waste of time to discuss here the merits or the constitutionality of any of the substitutes proposed, for it is apparent that no one seriously contemplates a radical departure at this time from a well-established policy. It follows, therefore, that collections from duties on imports must be taken as a main reliance for income to meet public obligations for an indefinite period in the future. Leaving the deficiency for the current fiscal year to be deducted from the accumulated surplus in the Treasury, we must so revise the tariff as to avoid the threatened \$160,000,000 annual shortage in revenue for the next and succeeding years. The aggregate amount to be raised annually for that purpose is disclosed by adding the \$160,000,000 to the \$290,000,000 estimated revenue from customs for 1910, making \$450,000,000. This sum will be reduced somewhat by receipts from the sale of Panama Canal bonds; but, even if such receipts should reach the improbable amount of \$100,000,000 during the next fiscal year, we would still be compelled to look to customs receipts for the remaining \$350,000,000. In the presence of these figures, how can tariff revision be held to mean tariff reduction? Such a view can only be based on the theory that reduction of duties will so stimulate importations as to increase the aggregate of custom-house receipts. This result would obtain when the best revenue-producing rate happened to be fixed, but such rate could only be ascertained by experience; and then, again, the verdict of the country stands on record in favor of a protective tariff rather than a tariff for revenue only. True, the measure of protection to be afforded is the difference between the cost of production at home and abroad; but we are to have a protective tariff subject to that standard of measurement, and subject also to the imperative requirement as disclosed by the figures quoted that customs receipts shall be made to yield from sixty to one hundred million dollars more per annum than the present tariff law yields.

It must always be remembered, in dealing with these condi-

tions, that every dollar of revenue sacrificed by reduction of duty on one item must be made up by adding an equal amount to some other item; and, moreover, the estimated deficiency must be made up. Of course, the probable increase of importations likely to result from reductions will be taken into account; but, after all increases, reductions and adjustments have been made and the minimum rate for protection with the maximum rate for trade aggression shall have been determined, the vital question of adequate revenue will still remain to be answered only by experience, unless that contingency is provided for in the bill. The safeguard employed to provide against the occurrence of a deficiency should not only be adequate, but likewise so flexible as to admit of increase or decrease by executive action as altered relations between revenue and appropriations might from time to time require. It seems that the evils incident to disorder in such relations can be averted, and reciprocity trade treaties encouraged and made possible by imposing a small *ad valorem* duty on all articles now on the free list. Experience has shown that the Reciprocity policy so earnestly advocated by Mr. Blaine and so often approved by the country cannot be carried forward while duties are levied only on imports coming in competition with home productions for which protection is demanded. The Reciprocity treaties heretofore negotiated by the Secretary of State have failed of ratification, because of the very natural opposition of the manufacturers and producers destined to be injuriously affected by the proposed tariff reductions. The wool-grower cannot be expected to consent to a treaty providing for the free admission of Argentine wool into this country in exchange for the privilege of the free entry of agricultural implements into Argentina. The consideration for the exchange would not pass to the wool-grower, but to the manufacturer of agricultural implements.

The same difficulty has been, and always will be, encountered in every attempt to base a Reciprocity treaty on the sacrifice of any protective duty. On the other hand, it is obvious that the remission by treaty of a duty imposed on any article now on the free list would not be opposed by any one. The Secretary of State would have a free hand, and the dream of reciprocal trade treaties would become a reality. The negotiation of the treaties would proceed with proper regard for the National revenues. If

the revised tariff produced ample revenue independent of receipts from the *ad valorem* duties on non-competing imports, these could be rapidly placed on the free list again as to such countries as elected to give us corresponding trade advantages by appropriate treaty stipulations. A limited free list would probably be required to embrace non-competing materials used in manufacturing in order to avoid the adjustment of compensatory duties, but that is a matter of detail.

The essential fact to which attention is directed rests on the availability of the existing free list as a means of increasing the revenue on a basis capable of being made somewhat flexible by executive action, along lines in harmony with, and in furtherance of, the policy of Reciprocity, to which I believe the American people are devoted. Finally, confronted, as we are, with an imperative requirement for more revenue than duties levied for protective purposes will probably supply, what valid objection can be urged against the levy of a uniform *ad valorem* duty on all articles now on the free list, with the possible exception before stated?

In 1908, the value of dutiable imports was \$657,415,920, and imports free of duty that year were valued at \$525,704,745. For protection of the revenue, articles imported free of duty are subjected to the same rigid inspection as dutiable articles; and, on general principles, it is difficult to comprehend why the importer should not at least pay the cost of such inspection, unless some compensatory trade advantage is extended to our people in the ports of the exporting country. There is not only an element of justice in the proposed *ad valorem* levy, but there is virtue in the policy in that it would open the way for fair reciprocal trade treaties, which additional internal revenue taxation would in no sense tend to promote.

THOMAS H. CARTER.